THE STATE LIFE FUND OF WISCONSIN

The State Life Fund of Wisconsin has been in operation about three years and a half and has reported on the business of three full years. The possibilities of the undertaking are not yet fully developed, but it has been in existence long enough to make apparent its general tendencies and indicate its probable results. It may be profitable, at this time, to recall the circumstances leading up to the establishment of the Fund and the principal features of the law creating it, to review the main facts of its history and the methods of its administration. Such an examination may enable us to discover the elements of strength and weakness in the plan, to judge its prospects of success, and to determine whether it should continue under its present, or some other, mode of operation.

The Fund was, in a measure, an outgrowth of the disclosures of the investigation of 1905 by the Armstrong Committee of the New York Legislature and of inquiries in 1906 by committees of the Wisconsin Legislature. One of these Wisconsin committees was appointed to investigate private life insurance companies, the other to inquire into the feasibility of the adoption of a plan of state life insurance. The first-named committee confined its investigations to the affairs of three companies: the Northwestern Mutual Life Insurance Company, of Milwaukee, Wisconsin; the Wisconsin Life Insurance Company, of Madison, Wisconsin; and the Union Central Life Insurance Company, of Cincinnati, Ohio.[1]

[1] The report of the committee states that these companies "were not selected because of any belief on the part of the public or of any belief on the part of the committee that their affairs were conducted in any less creditable manner than those of other companies transacting life insurance business in this state. The Northwestern Mutual Life Insurance Company had courted this investigation, and the Union Central was selected for examination because it is recognized as a conservative mutual and stock company and had not been examined by the New York investigating committee, and has a large number of policyholders in this state." *Report of the Joint Committee of Senate and Assembly on the Affairs of Life Insurance Companies*, (Madison, Wis., 1906), p. 4.

The findings of this committee were not of a sensational nature, like those of the Armstrong Committee. However, they recommended legislation to increase the influence of policyholders in the management of the companies, to suppress rebating, to require complete reports on legislative expenses, to define the rights of policyholders in the surplus, to limit expenses, to require standard policy provisions, and, in general, to secure more equitable treatment of policyholders. As a consequence, laws designed to secure these objects were passed.[1]

The Senate members of the joint committee which reported on the affairs of the private companies were constituted a committee to report on state life insurance. The majority report was against its immediate adoption; the minority report favored state life insurance as well as state sickness and accident insurance, and invalidity and old-age insurance. No action was taken until June 7, 1911, when the law creating the State Life Fund was passed.[2]

PROVISIONS OF THE LAW

According to the law, the State Life Fund is to be a mutual life insurance company, operated by the state for the benefit of residents, and all the profits are to go to the policyholders. The cost is to be reduced by the elimination of agents' commissions; the insurance is to be sold "over the counter."[3] The law states that the Fund is established "without liability on the part of the state." Assistance from the state in meeting claims is made unnecessary by the adoption of level-premium life insurance.[4] An adequate reserve is to be created for each policy. The basis

[1] See respectively, chap. 667, Laws of 1907; chap. 504, Laws of 1907, and chap. 270, Laws of 1911; chap. 131, 1907, and chap. 597, 1907; chap. 391, 1907; chap. 668, 1907; chap. 108, 1909.

[2] Laws of Wisconsin, 1911, chap. 577.

[3] *Ibid.*, chap. 577, and Revised Statutes, 1915, chap. 90M, sec. 1989*m*.

[4] There are only two sound plans for whole life insurance, the step-rate plan and the level-premium plan. Under the former the insured pays only the cost of insurance from year to year, the burden becoming very heavy in the later years; under the latter, the excess payments of the earlier years make up the deficiency of the later years, the premium remaining the same.

prescribed is the American Experience Table of Mortality, with a 3 per cent interest assumption.

The commissioner of insurance is instructed to prepare the necessary tables of premiums and reserves and the policy forms, application and medical examination blanks. He is required to furnish schedules of rates and copies of the forms of policies to each state factory inspector, to the clerk and treasurer of every county, city, town, and village, and to the cashier of every state bank which receives deposits of state money. It is the duty of these officials to fill out applications and transmit them to the commissioner of insurance. Applications may also be sent directly to the commissioner of insurance. Any person who forwards an application—either the applicant himself, the local official, or any other person—may retain, as a fee, a deduction from the premium of 1 per cent, plus 25 cents. This cannot be considered a commission, as the term is ordinarily used. It is merely a clerical fee.

The amount of insurance which can be issued to any one person is fixed by the law at $1,000, until the number of policyholders shall exceed 1,000, when $2,000 policies may be issued. When the number of policyholders shall exceed 2,000, the amount of insurance which may be issued to any one person is $3,000, which is the maximum amount of insurance which one person shall ever hold in the Fund. The policy provisions are liberal. If the policyholder ceases his premium payments he will not forfeit any part of the reserve on his policy. He may claim the entire amount of the reserve as a surrender value, or may receive the paid-up or extended insurance which the full reserve, applied as a premium, will buy. The insured is permitted to borrow the full amount of the reserve.

The chairman of the State Board of Health is the medical supervisor of the Fund. Losses and other payments are audited by the secretary of state, on the order of the state treasurer, attorney-general, and commissioner of insurance acting as a board. The expenses of administration are to be paid out of the expense loading of the premiums. A surplus is to be built up out of the savings and gains. The law provides that the accounts of the

Fund shall be audited in the same manner as the accounts of state officers.

ARGUMENTS FOR AND AGAINST THE FUND

It is not the purpose of the writer to enter upon a discussion of the general question of the merits of state life insurance; an enumeration of the principal arguments for and against this particular plan, however, may serve to indicate briefly what its advocates expected it to accomplish and what the opponents claimed would be its results. The principal arguments advanced in advocating the adoption of the plan were: that a large part of the insurance business can be reduced to routine, and hence state management is practicable; that insurance would be furnished to the people of the state at lowered cost, by the elimination of agents' commissions and the reduction of salaries and other overhead expenses; that the policyholder would be given every possible advantage under the terms of the contract; that the confusing and vexatious conditions embodied in so many policies would be eliminated; that "money would be kept in the state," and that the fund would be an opening wedge toward the establishment of a complete scheme of social insurance.

On the other hand, it was asserted that competition between companies secures to the public the lowest cost of insurance; that private monopoly does not and cannot exist in life insurance; that mutual companies return to policyholders all the savings and gains which it is possible to make under management which assures the permanence and continuous growth of the companies; and that non-participating companies, competing with mutuals, must meet their rates. It was argued that the Life Fund was, for these reasons, unnecessary, since it would secure to the people nothing which they did not already possess.

It was maintained that people will not buy insurance unless solicited; that the existence of the agent is justified because without his efforts the social benefits of insurance cannot be widely extended, and that in spite of the large total compensation of some agents, the average compensation of all agents is not disproportionate to the service which they render.

It was asserted that it is wrong for the same authority to regulate the private insurance companies, to make examinations of their books, publish reports of their operations, make administrative rulings with which they must comply, and at the same time compete with them by offering life insurance to the public through the medium of the Life Fund. It was argued that unfair advantage might be taken of the knowledge obtained through the investigation of private companies to promote the interests of the Life Fund at the expense of the companies.

At about the time the plan was formally inaugurated it was argued that the use of any of the general insurance-department appropriation for Life Fund purposes was unjustifiable and that it constituted taxation of the citizens at large for the benefit of policyholders in the Fund. The commissioner of insurance was directed by the law to prepare tables and forms for the Life Fund, as stated above, and he was named by the law as the administrator of the Fund. He interpreted his duties to include the establishment of the fund as a "going concern." No money was provided for the specific purpose of advertising and promoting the Fund, however. The only provision for expense was through the clause specifying the amount of expense loading to be included in the gross premiums. Until policies were issued and premiums paid, there naturally could be no available fund of this sort. It was argued that the commissioner had not interpreted his duties correctly and that he had no right to use any of the general appropriation for his department to aid the Life Fund.

PREPARATION FOR THE ISSUANCE OF POLICIES

Carrying out the provisions of the law, the commissioner of insurance proceeded to have the necessary tables and forms prepared by the actuarial bureau of the insurance department. The premiums of the Life Fund are lower on some kinds of policies, and higher on others, than the premiums of the old-line companies. The Life Fund premiums are especially low on the endowment forms, due to the method of loading for expense.[1]

[1] The loading for expense is "two dollars per year per thousand of insurance, and an amount distributed equally through each of the possible premium payments, the

The following kinds of policies were offered at first: ordinary life, twenty-payment life, ten-year endowment, twenty-year term, term to age sixty-five, and endowment at age sixty-five. Soon after the first policies were issued, rates were quoted on twenty-year endowments and ten-year term policies. This provided a fairly wide range of selection. The applicant could almost certainly find, among the forms of policies issued, one which closely suited his needs.

The policy form was made as short as possible and the phrasing simple and direct. A table is included in each policy which shows the policyholder just what part of his premium is used each year to pay the cost of insurance, just how much interest is earned by his premium and reserve, the amount of his reserve at the end of the year, and the portion of the premium which is used to pay the expenses of administration.

When the tables and forms were ready, about a year after the law was passed, the commissioner of insurance announced, through the press and by means of circular letters, that applications would be received. Applications had begun to come in, when an event occurred which had a very serious effect on the growth of the Fund. Governor McGovern attempted to remove Commissioner Ekern from office, charging that he had been illegally active in politics.[1] This was the beginning of a protracted struggle which led through a senatorial investigation, and an appeal to the courts, to a final vindication of Mr. Ekern and his retention of the office of insurance commissioner. It is not difficult to imagine the effect which this had upon the Life Fund. Commissioner Ekern had been an enthusiastic advocate of the plan and was working hard for its

present value of which shall be equal to one-sixth of the present value of the costs of insurance on the basis aforesaid." The cost of insurance is the share of the death losses to be borne by the policy, and is based on the "amount at risk," which is the difference in any particular year between the reserve and the face value of the policy. Since the reserve on an endowment policy is larger than on a term or straight-life policy, and the "amount at risk" consequently less, the cost of insurance is less, and hence the loading is less under the method prescribed by the Life Fund law (chap. 90M, sec. 1989*m*–4 of the Revised Wisconsin Statutes, 1915).

[1] Chap. 42, sec. 963 and chap. 44*a*, sec. 990–92 of the Revised Wisconsin Statutes, 1915.

success. "What," was asked, "will happen to the Fund, if Commissioner Ekern is removed from office?" The number of applicants continued to grow slowly, however, and when two hundred persons, both men and women, the latter being accepted as risks on the same terms and at the same premiums as the former, had been examined and accepted, the first policies were issued on October 27, 1913. These two hundred policies were for about $110,000 of insurance, about ninety $100 policies having been issued to members of the class of 1913 of the University of Wisconsin. The proceeds of these policies will constitute a class memorial fund.

An enumeration of the following occupations which were represented among the first policyholders may serve as something of a description of the group: accountant, agronomist, banker, engineer (civil, electrical, and mechanical), forester, journalist, lawyer, librarian, mail carrier, manufacturer, merchant, patternmaker, public official, railroad ticket agent, social worker, statistician, student, teacher.

In the months just prior to, and following, the issuance of the first policies an extensive campaign of publicity was carried on. About this time the press regarded items concerning the Life Fund as news, and printed detailed accounts of its progress, but naturally this could only be for a limited period. Circulars presenting the essential facts about the Fund in an interesting manner were sent to selected lists of Wisconsin residents. Many personal letters were written to prominent citizens in an effort to enlist their co-operation. The commissioner of insurance made several public speeches explaining the plan. Circular letters were sent to the local officials whose assistance was prescribed by the Life Fund law, and they were furnished with advertising matter for distribution. Employers of labor were addressed and special posters sent to them to exhibit in places where they could be read by workmen. Tables of monthly rates were prepared and sent out, to encourage persons of small means to insure. Some of the labor unions co-operated by furnishing lists of their members, and these persons were circularized. In these and many other ways information as to the Life Fund was spread abroad.

GROWTH OF THE LIFE FUND

The growth of the Fund can, perhaps, be best set forth by presenting a few comparative figures as shown in Table I.[1]

TABLE I

CONDITION OF FUND AT THE END OF EACH YEAR

Year	Number of Policies	Amount of Policies	Premiums Received during Year	Total Admitted Assets	Total Policy Benefits Paid
1913........	237	$146,400	$ 5,734.58	$ 5,600.85	0
1914........	315	224,100	8,238.57	13,267.52	$ 449.64
1915........	381	289,600	10,810.54	20,458.45	3,640.25
1916........	447	361,700	13,773.86	32,849.80	2,100.87*

Net Reserve on Policies, December 31, 1916, $26,964.96

* Includes $549.84 applied to pay renewal premiums.

Though the amount of business done has been small, the rate of increase has been fairly constant. The first few years of any undertaking of the sort are usually discouraging. The Life Fund has now accumulated sufficient assets so that its permanence is practically assured. On the other hand, a comparison with the amount of business done in Wisconsin by the Wisconsin companies shows how very slowly the Life Fund has progressed. Although figures have been given above for the 1916 business of the Life Fund, it will be necessary to use the results of the 1915 business, as shown in Table II, for most purposes of comparison, because the full report on 1916 business is not yet available.

TABLE II

INCREASE DURING 1915 OF INSURANCE IN FORCE IN WISCONSIN*

Wisconsin Companies	Number of Policies	Amount of Policies
Northwestern Mutual.......	2,005	$3,957,814
Old Line..................	669	1,128,750
Guardian Life.............	683	850,141
Great Northern............	299	812,020
Wisconsin Life............	293	452,090
Wisconsin National........	171	201,264
State Life Fund...........	66	65,500

* *Wisconsin Insurance Report*, 1916, p. 289. (Report for 1917 not yet published.)

[1] Five-year comparative statistics of life insurance companies. *Wisconsin Insurance Report*, 1916, p. 250.

When we consider that fifteen companies of other states were doing business in Wisconsin during the same period, and that the total increase in policies in force in the state in 1915 was 49,545 for the amount of $23,289,105, it will be seen that the proportion of the business which was done by the Life Fund was small.

The amount of business done, however, is not conclusive, and we should examine the operations of the Fund in order to discover the relative efficiency of its management. Let us examine the factors which determine the amount of dividends which a company can pay. First, as to the expense ratio, we have the figures in Table III.

TABLE III

RATIO OF INSURANCE EXPENSES INCURRED TO LOADING CONTAINED IN THE PREMIUMS RECEIVED IN 1915*

WISCONSIN COMPANIES

	Percentage		Percentage
State Life Fund	74.3	Wisconsin National	178.4
Northwestern Mutual	74.3	Old Line	183.2
Wisconsin Life	135.7	Great Northern	244.5
Guardian	173.1		

* *Wisconsin Insurance Report*, 1916, p. 293.

The good showing of the Life Fund in this respect is apparent rather than real, however, because no savings from expense loading were included in the dividends paid in 1916. It has not been determined just what proportion of the general insurance-department expense should be charged to the Life Fund. Undoubtedly a certain amount should be so charged, and, until the matter has been decided, it is difficult to draw definite conclusions about the expense of administration of the Fund. Consequently Table IV, as well as Table III, will have to be taken with considerable reservation.

TABLE IV

RATIOS OF EXPENSE OF MANAGEMENT TO PREMIUM INCOME IN 1915*

WISCONSIN COMPANIES

	Percentage		Percentage
State Life Fund	9	Wisconsin National	47
Northwestern Mutual	14	Wisconsin Life	50
Great Northern	40	Old Line	52
Guardian	42		

* Ratios based on figures given in *Wisconsin Insurance Report*, 1916, pp. 268–75.

All the private companies in this list began business after January 1, 1908, except the Northwestern Mutual, which commenced business in 1858, and the Wisconsin Life, which first wrote business in 1895. Naturally, new companies have a hard fight to gain a secure position. The "select and ultimate" and "preliminary term" methods of valuing policies make it possible for these companies to use the greater part of the first premiums for the expense of securing new business, but even if this explains the high ratio of expense shown by these new companies, it hardly makes the low ratio of the Life Fund less commendable. It will be seen that the Life Fund ratio would be low, even if doubled or trebled on account of the apportionment of expense mentioned.

We might further compare, as in Table V, the expense ratio of the Fund with the expense ratios of some companies of other states doing business in Wisconsin.

TABLE V

RATIOS OF EXPENSE OF MANAGEMENT TO PREMIUM INCOME IN 1915*

COMPANIES OUTSIDE OF WISCONSIN

	Percentage		Percentage
New York Life	14	New England Mutual	17
Mutual Life	16	Travelers	24
Equitable	17		

* Ratios based on figures given in *Wisconsin Insurance Report*, 1916, pp. 268–75.

Let us turn to a comparison of the mortality experience of the different organizations as given in Table VI.

TABLE VI

RATIO OF ACTUAL TO EXPECTED MORTALITY IN 1915*

WISCONSIN COMPANIES

	Percentage		Percentage
Guardian	28.7	Wisconsin Life	56.2
Wisconsin National	38.6	Northwestern Mutual	60.3
Great Northern	43.0	State Life Fund	79.2
Old Line	43.6		

* *Wisconsin Insurance Report*, 1916, p. 294.

While the experience of the Life Fund in this respect is not as favorable, the result does not necessarily mean that the Life Fund's selection of risks has been inferior. The number of policies is

still so small that one extra death means a large addition to the percentage of loss incurred to loss expected. In 1913 and 1914 there were no death losses,[1] and in 1916 only one death claim. The ratio of actual to expected mortality of the Life Fund in 1916 was 31.3 per cent.

Turning to the interest earnings of the Fund, we find that in 1915 it occupied middle ground, three companies having a higher and three a lower rate. Table VII gives the percentages for seven

TABLE VII

RATIO OF NET INCOME FROM INVESTMENTS TO MEAN LEDGER ASSETS*

WISCONSIN COMPANIES

	Percentage		Percentage
Great Northern	5.31	Wisconsin Life	4.93
Wisconsin National	5.27	Northwestern Mutual	4.71
Guardian	5.21	Old Line	4.67
State Life Fund	5.18		

* *Wisconsin Insurance Report*, 1916, p. 293.

Wisconsin companies. Thus we see that the Life Fund occupies an average position with respect to mortality experience and interest earnings,[2] while its expense ratio is somewhat in doubt. Since the experience of the Life Fund has been fairly favorable with regard to expense, interest, and mortality, we should expect the dividends on policies to make a good showing, and we find this to be the case.

Thus we find that in spite of a fairly good record and a comparatively low net cost of insurance, the State Life Fund has done only a very small amount of business. It may be well, before taking up any of the details of the administration of the Life Fund, to devote some attention to other state insurance plans, in order to form conclusions as to what the comparative success of the Life Fund has been.

THE EXPERIENCE OF SIMILAR PLANS

There is much variation in the forms which state insurance takes, and the State Life Fund has little in common with some of them. A comparison of the Life Fund with a government monop-

[1] *Wisconsin Insurance Report*, 1916, p. 251.

[2] The net rate of interest earned by the Fund in 1916 was 5.6 per cent.

oly of life insurance, like that created by Italy in 1912, would be of small utility; nor has it very much more in common with the different European plans of social insurance, conducted through local associations, mutual-aid societies, or government bureaus, involving compulsion and sometimes the payment of part of the premium by the state. There are several state insurance undertakings, however, which involve a measure of competition by the state with private companies and which have other points of similarity with the Life Fund, so that a comparison may be of value.

The foremost example of this class is the State Life Insurance Department of New Zealand, which was established in 1869. The business of this department is conducted in much the same way as the business of a private mutual life insurance company. All the usual classes of policies are issued and canvassers are employed to obtain new business, and compensation is graded according to business secured.[1] The contracts are guaranteed by the state, and premiums are somewhat less than those of the private companies. For some years after it began operations the department's business increased rapidly, its only competitor being the Australian Mutual Provident Society, but of late years it has lost ground in the competition with private companies. From 1897 to 1907 the state office increased its amount of insurance in force by 20 per cent, while the private companies increased their total amount by 78 per cent.[2] From 1908 to 1914 the state office increased its amount of insurance by $14\frac{1}{2}$ per cent and the private companies increased theirs by 32 per cent.[3] In 1905 the state office had 37.3 per cent of the total insurance in force in New Zealand, in 1908 it had 34.8 per cent, in 1911, 32.6 per cent, and in 1914, 31.6 per cent.[4] This indicates a gradual decline in the relative importance of the state insurance. The expense ratio of the state office is about the same as the average rate for private companies, its lapse rate is somewhat higher, and its "bonuses," i.e., dividends, somewhat

[1] LeRossignol and Stewart, *State Socialism in New Zealand*, chap. ix, p. 155.

[2] *Ibid.*, p. 158.

[3] Ratios based on figures given in the *New Zealand Official Year Book* (Wellington, N. Z., 1915), pp. 680–83.

[4] *Ibid.*

lower.[1] The explanation offered by state officials for the falling off in the amount of business done by the state office is that the field is too limited, but the reason assigned by others is the lack of aggressiveness on the part of the management.[2]

The British post-office, through its savings department, has written life insurance and annuities since 1865.[3] Persons of either sex, between the ages of fourteen and sixty-five, may be insured. The policies may not be less than £5 nor more than £100. Children between eight and fourteen years of age may be insured for £5. Under the same act, annuities, either immediate or deferred, of not more than £100, may be granted on the lives of persons of either sex, not under five years of age.[4] Though the terms and rates of the post-office insurance and annuities are favorable, the department has never written a considerable amount of life insurance. Its annuity business has been fairly large, as is shown in Table VIII.

TABLE VIII

BRITISH POST-OFFICE INSURANCE AND ANNUITIES*

CONTRACTS FOR INSURANCE AND ANNUITIES IN EXISTENCE ON DECEMBER 31, 1913

	Number	Amount
Immediate annuities......	31,640	£731,279
Deferred annuities........	2,682	29,324
Insurance policies........	12,247	692,810

* British Parliamentary Papers, XLIV (1914), 737.

There are scores of British companies which carry a larger amount of insurance; compare, for example, the business of the North British and Mercantile Company, which has 71,972 outstanding policies for the amount of £34,022,313.[5] This company has in force 6,530 annuities, for the amount of £344,600.

The Canadian government has sold annuities through its post-office department since September 1, 1908. Annuities may

[1] LeRossignol and Stewart, *State Socialism in New Zealand*, chap. ix, p. 165.

[2] *Ibid.*, p. 166.

[3] Act 27 and 28 Victoria, cap. 43.

[4] *Thom's Official Directory* (Dublin, 1915), p. 1116.

[5] British Parliamentary Papers, LXXIV (1914), 829.

be either deferred or immediate. Except for invalidity or disablement the deferred annuity may not be received before age fifty-five; any person fifty-five years of age or over may purchase an immediate annuity. The smallest annuity which may be purchased is $50 and the largest $600. Employers of labor may buy annuities for their employees, or assist in such purchase, and societies may provide annuities for members. The number of annuities issued from September 1, 1908, to March 31, 1913, was: immediate, 463; deferred, 2,621; total, 3,084; aggregating in amounts contracted for $612,063.31. The net present value of all outstanding contracts on March 31, 1913, was $1,686,659.94.[1]

Massachusetts Savings Bank Life Insurance is not state insurance, but inasmuch as the expense of administration is shared by the state and as the purpose of the plan is to secure insurance at cost for wage-earners, it may be considered similar in purpose to social insurance. Under the law passed in 1907 savings banks are permitted to organize insurance departments and to sell, "over the counter," contracts of insurance and annuities.[2] The funds of the savings and insurance departments are to be kept entirely separate, the funds of the latter being invested, however, in the same classes of securities as the funds of the former.

A General Insurance Guaranty Fund is established under the law and is created a body corporate.[3] The affairs of this corporation are managed by a board of seven trustees, appointed by the governor, with the advice of the council, from the number of the trustees of savings banks, and "savings and insurance" banks. Savings bank insurance is managed in the name of, and by, the trustees of the General Guaranty Fund. The trustees of this Fund appoint the state actuary, as the actuary of the fund is called, the medical director, and the educational secretary, and their assistants. All necessary forms and blanks, ratebooks, and pamphlets are furnished free to the banks, and a large amount of literature is

[1] *Imperial Year Book for Dominion of Canada*, 1914–15 (edited by A. E. Southall, Montreal), p. 203.

[2] Massachusetts Acts of 1907, chap. 561 (form 1).

[3] *Ibid.*, as amended by chap. 246, Acts of 1914.

distributed by the educational secretary, who travels about, holding shop meetings and endeavoring in other ways to bring savings bank insurance to the attention of the public. Four savings banks have established insurance departments under the law. The interests of these banks are pooled, so far as mortality losses are concerned. The state actuary determines each year the ratio of actual to expected mortality for each savings bank insurance department, and also the average ratio for all the departments. Those which have suffered losses greater than the average are indemnified from the mortality savings of those which have realized better than the average.

Several hundred agencies for the receipt of premiums have been established in all parts of the state, the majority of the agencies being in manufacturing establishments, for the convenience of employees. Most of these agencies make no charge for the collection of premiums, but public agencies, in stores and banks, receive 2 per cent of the premium for collecting. The insurance contracts may not exceed $500 in any case or the annuities $200. Since an individual may take out the maximum amount of insurance, or the maximum annuity, in each of the four insurance banks, he can secure $2,000 insurance or $800 in annuities.

TABLE IX

GROWTH OF THE MASSACHUSETTS SAVINGS BANK LIFE INSURANCE*

Year	Number of Banks with Insurance Departments	Number of Policies	Amount of Insurance
1908	2	282	$ 114,953
1909	2	2,513	992,761
1910	3	3,318	1,367,363
1911	4	5,063	1,956,038
1912	4	6,652	2,528,809
1913	4	8,054	3,150,806
1914	4	9,439	3,566,778
1915	4	10,892	4,341,205
1916	4	14,030	6,035,041

* *Massachusetts Life and Miscellaneous Insurance Reports*, Vols. LIV–LXI.

Any comparison of the net cost of Massachusetts savings bank life insurance with the net cost of "industrial" insurance

would be inconclusive. It is claimed by the officials of the Guaranty Fund that the cost of the monthly premium policies of savings bank insurance is 17–35 per cent less than any weekly premium insurance.[1] On the other hand, the officials of private companies claim that, since the state has appropriated an amount for the support of the savings bank insurance administration which approximates the total amount paid in dividends by savings bank insurance, such a comparison is unfair. There would seem to be justification for the additional claim of the private company officials that the savings bank insurance should be regarded as supplementary to industrial insurance, rather than competitive with it, since the savings banks do not issue weekly premium policies, and since the average policy is so much larger than the policy of the "industrial" companies. The average size of the weekly-premium, or "industrial," policies, in three leading companies which issue that form of insurance was, on December 31, 1915: in the Metropolitan Life Insurance Company, $133; in the Prudential Life, $132; and in the John Hancock Company, $171. The average Massachusetts savings bank policy was, on October 31, 1915, $399.[2]

TABLE X

POLICIES ISSUED IN MASSACHUSETTS IN 1915*

Company	Number	Amount
John Hancock	125,469	$23,060,438
Metropolitan	157,221	23,884,022
Prudential	89,722	16,142,917
Massachusetts savings bank insurance (October 31, 1914, to October 31, 1915)	2,539	1,125,673

* The sixty-first *Massachusetts Life and Miscellaneous Insurance Report*, 1916, Table I, "Massachusetts Business," pp. xliv and xlv, and 289–303.

A comparison of the amount of insurance business done by the Massachusetts savings and insurance banks, with the Massachusetts industrial business of the three companies mentioned above, as shown in Table X, will give an idea of their relative importance.

[1] See pamphlet on Massachusetts Savings Bank Life Insurance, issued by the state actuary, "Part II, Description and Premium Rates of Monthly Premium Policies."

[2] Based on figures given in the sixty-first *Massachusetts Life and Miscellaneous Insurance Report*, 1916, pp. 37, 138, 240, and 289–303.

The record of the different savings and insurance banks varies with respect to lapses. On the whole, however, the record of savings bank insurance is somewhat better in this respect than the record of the private companies mentioned.

The reasons for the fair degree of success which Massachusetts savings bank life insurance has attained, seem to be that it has appealed directly to the wage-earners and has encouraged them to take policies of moderate amounts on a monthly-premium basis; that the experiment has been given constant publicity through the efforts of the Massachusetts Savings Insurance League and the educational work of the state officials, and that a large share of the expense of administration has been borne by the state.

There are two private life insurance companies which may be compared with the Wisconsin State Life Fund. One is the Equitable of London, which has been selling insurance "over the counter," as the Life Fund is doing, for about one hundred and fifty years. The amount of business done is comparatively small for an old, established company. The quotation of a few figures from the company's annual statement will illustrate its position:[1]

Amount of life-assurance fund at the beginning of the year (1912)	£4,706,271
Premiums	212,514
Consideration for annuities granted	9,935
Total assets, December 31, 1912	5,450,201

TABLE XI

	Number of Policies	Amount
Insurance in force	6,250	£8,405,864
Annuities	340	24,868

The other private company to which reference has been made is the Postal Life of New York. This company writes life insurance principally by mail order instead of through solicitors. Its experience indicates that it is as expensive to sell insurance solely by advertising, through periodicals and circulars, as it is through solicitors. The ratio of the expenditures of the Postal Life in 1914

[1] *British Parliamentary Papers*, LXXIV (1914), 109 and 827, "Assurance Companies."

for advertising, printing and stationery, express, commissions to agents, and salaries, to the total premium income (including surrender values and dividends applied to the purchase of insurance) was 13 per cent.[1] This is a low ratio, but the results of the expenditure were not encouraging, as the number of policies in force with the Postal Life decreased, during the year, from 23,673 to 22,990 and the amount of insurance from $47,250,058 to $44,242,318.[2]

A study of these different plans shows that none of them has extended its benefits to a very large group of persons. The inference seems plain that an insurance organization without solicitors cannot compete successfully with a company employing solicitors. The New Zealand state life insurance, which employs solicitors, has grown to greater proportions than any other state life insurance department. Here the factor which has caused a decline in the comparative standing of the office seems to be a lack of sufficient incentive to induce the greatest efforts of the agents. Neither the British Post-Office Life Insurance and Annuity Department nor the Canadian Government Annuity Department has attained relatively great size or importance. The Massachusetts Savings Bank Life Insurance, while not employing solicitors, has carried on educational work which apparently has borne good results. The growth of the Equitable of London is almost imperceptible, compared to that of its competitors, while the Postal Life has found that it is fully as expensive to persuade the prospect by means of the printed word as through the person of the solicitor. The State Life Fund, offering the policyholder every advantage and selling insurance at rates that compare very favorably with the old line companies, is yet increasing its business very slowly. In the light of the experience of similar plans of insurance, the showing made by the Life Fund is fairly creditable. All depends on our view of what the Fund should have accomplished. It must be evident that the Life Fund, under its present plan of operation is not likely to become a formidable competitor of the old-line companies. Before considering whether it will be wise to change

[1] Ratio based on figures from annual statement of the Postal Life Insurance Company, *New York State Life Insurance Report*, 1915, p. 234.

[2] *New York State Life Insurance Report*, 1915, Part II, p. 239.

the scope and alter the method of operation of the Life Fund, it may be well to discuss some of the practical difficulties in management.

ADMINISTRATIVE DIFFICULTIES

The enthusiasm and energy of former Commissioner of Insurance Herman L. Ekern were the greatest factors in promoting the interests of the Life Fund at its inception and during the early days of its existence, as the writer has stated above. Mr. Ekern retired from office on July 1, 1915, and Governor Phillipp appointed as his successor Hon. M. J. Cleary. It has been reported that the latter has stated that he is not in sympathy with the purpose of the Fund.[1] If this is correct, it illustrates one of the dangers to which the Fund is subject. In order to assure success in its management, enthusiasm is required as well as good judgment. It is an error to suppose that the organization will supply its own motive power.

The administrative machinery of government almost always moves quite slowly. This constitutes another difficulty in the operation of the plan. It was discovered that, owing to a conflict of laws, premiums could not be refunded to rejected applicants. As the law prescribes that the first premium payment must accompany an application, this was a serious difficulty. A remedy was found, after some delay, but a matter which should be easy to rectify may thus cause much trouble and loss of time in waiting for adjustment through administrative rulings.[2]

Another fruitful source of trouble is the distribution of duties among different departments of the state government. As long as relations between the departments are harmonious and everyone is in sympathy with the plan, affairs run smoothly, but lack of co-operation may negative all the efforts of those who are in favor of the undertaking. It is also difficult to secure the co-operation of local officials. Almost without exception they regard the addition to their duties as a nuisance, and the fee which they receive for making out an application can hardly be regarded as adequate compensation for the trouble.

[1] *The Spectator*, XCV, 191. Paper given by Commissioner Cleary at National Convention of Insurance Commissioners.

[2] See "Amendment to the Law," Wisconsin Laws of 1913, chap. 291, sec. 14.

Accurate reports on the character and financial responsibility of applicants must be secured by life insurance organizations. This information is secured by private companies through detective agencies or bureaus especially organized for the work. The cost of such service places it beyond the reach of the Fund, but the need for it is great, because the danger of "adverse selection" is greater when the move for insurance comes from the prospective buyer, not from the agent. Those who feel that they have some physical weakness or infirmity which impairs their probability of long life, and who, perhaps, have been rejected by a private insurance company, may try to secure insurance in such an organization as the Life Fund.

The small fee paid to the medical examiner is another defect in the system. The usual fee for examination of applicants for policies in old-line companies is $5.00, while the fee paid for examination of an applicant for a Life Fund policy is $2.00. The doctor can hardly be expected to make so careful an examination for the Life Fund, though the need for it is somewhat greater. Furthermore, the physician may be expected to co-operate more heartily with the insurance agent than with the Life Fund, when the fee paid by the private company is so much larger.

THE FUTURE OF THE LIFE FUND

We have seen that in spite of the low cost of the insurance offered and the liberal terms of the policies, comparatively few people have availed themselves of the opportunity to insure in the State Life Fund. We have also seen that it is common experience for plans of this sort not to grow very rapidly or to attain great proportions. The question naturally arises as to what the future of the Life Fund is to be. Shall it continue under its present mode of operation, shall it be discontinued, or shall its policy be changed in the light of its experience?

Conducted on the present plan it will probably continue to add a small amount of insurance from year to year, until the assets become not inconsiderable. It can continue in this way with safety to the policyholders because it is on a sound actuarial basis. It will not be an active competitor of the old-line companies,

because it is not in its nature to be. It has been suggested that it might be used as a "club" over the heads of the private insurance companies to wring from them concessions which they would not otherwise grant to policyholders, but since its use in this manner would depend on its potential ability as a competitor, it would be of little use in that direction, even were such use considered desirable or necessary. Neither is it likely that it could be used as a model to lead the private companies toward better management, since improvement in business methods seldom comes from governmental departments.

There is a field of usefulness, however, for the State Life Fund. As evidenced by the average size of policy taken and by the occupations represented by policyholders, the appeal of the Fund, at present, is to those persons who would otherwise take out small policies of "ordinary" insurance with the old-line companies. The same difficulty which has prevented the Life Fund from becoming an active competitor of the "ordinary" old-line companies would probably also prevent successful competition with the "industrial" companies. There is a zone between the industrial insurance and ordinary insurance, however, represented by policies of a few hundred dollars, paid for in monthly instalments. These policies are hardly worth the active efforts of the solicitor for the ordinary company, and they can be sold at lower rates than those offered by the industrial companies. It is quite possible that the Life Fund might continue to write as many $1,000 policies as it does at present, while making its especial appeal for the smaller policies. Such insurance would be supplementary to both industrial and ordinary insurance rather than directly competitive with either.

In any event, there are certain changes which should be made in the management of the Fund. In the first place, the administrator of it should be made independent of any other department. This would remove the possibility of the control of the Fund by a commissioner of insurance not in sympathy with its purpose. Heads of other departments should be relieved of the necessity of co-operation as far as possible. Administration by a separate bureau would also remove the objection that the same authority

supervises the private companies and directs competition against them. In the second place, educational officers should be provided. This is the only way in which state insurance can be brought to the attention of the public constantly, in the absence of provision for solicitors, or of large sums for advertising, which is as expensive as solicitors' commissions.

While the experience of the Life Fund and of similar plans of insurance holds out no prospect that it would do an exceedingly large volume of business, even were its purpose thus modified and its administration altered, the probability that it would serve a useful purpose seems great enough to warrant the trial.

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